A Few Reasons to Be Thankful This Thanksgiving

Following an election that has divided the nation, we turn our attention to the holiday that has traditionally brought families together and reminded everyone to be thankful for what they have. There are many reasons for investors to be thankful this year. Interestingly, the average grocery bill for a Thanksgiving meal is down 0.5% from this time last year. Lower feed costs and rising turkey output has brought down the average wholesale frozen bird's price by 11%. So with peace and harmony in mind, we offer this guide to highlight several market positives for which investors may be thankful.

Since the election, equity returns have been strong

Since the election, investors have been quick to embrace President-elect Trump's expected policies, and, as shown in Chart 1 below, financials have outperformed the other ten sectors within the S&P 500 Index. Within the S&P Composite 1500 Index, a broader benchmark which comprises the S&P 500, the S&P Mid Cap 400, and the S&P Small Cap 600 indices, small-cap stocks have outperformed by the greatest margin, up 10.6%. The Russell 2000, the other widely referenced small-cap index, has rallied for ten straight days, capping its longest winning streak since 2003. In fact, on November 21st, the Russell 2000, together with the S&P 500, the Dow Industrials and the NASDAQ Composite all set new record highs.

Chart 1

S&P 1500 Sector/Sub-Industry Price Returns: 11/8/16-11/18/16

Assets Classes/Sectors	% Chg.	Best S&P 1500 Sub-Ind.	% Chg.
Financials	11.1	Steel	17.4
S&P 600	**10.6**	Heavy Electrical Equipment	17.3
S&P 400	**6.1**	Construction & Engineering	17.3
Industrials	6.0	Consumer Electronics	17.2
Materials	3.5	Investment Banking & Brokerage	17.0
Consumer Discretionary	3.5	Regional Banks	17.0
S&P Composite 1500	**2.5**	Department Stores	16.8
Energy	2.5	**Worst S&P 1500 Sub-Ind.**	**% Chg.**
Health Care	2.0	Residential REITs	(6.3)
S&P 500	**2.0**	Tobacco	(6.4)
Telecom. Services	1.4	Electric Utilities	(6.5)
Information Technology	0.2	Housewares & Specialties	(6.8)
Real Estate	(2.6)	Brewers	(7.8)
Consumer Staples	(4.1)	Agricultural Products	(8.4)
Utilities	(5.5)	Gold	(9.3)

Source: CFRA, S&P/DJ Indices. Figures above do not include the effects of dividends.
Past performance is no guarantee of future results.

At the sub-sector level, steel producers, electrical equipment, and construction and engineering have risen the most, all up over 17% since Election Day, in anticipation of the fiscal stimulus expected to come from the infrastructure spending pledged on the campaign trail.

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Investor rotation into cyclicals signals confidence
Improving economic strength during the second-half of this year has triggered a significant investor rotation into cyclical, growth-oriented stocks from defensive sectors. This rotation is clearly evident in the bottom three sectors on the left-side of Chart 1. Conversely, more cyclically oriented sectors such as industrials, materials, and consumer discretionary have been positive.

The corporate earnings outlook has improved
For the first time in six quarters, S&P 500 corporate profits are expected to rise on an overall basis. Before the start of the reporting season, analysts' consensus estimates projected S&P 500 company earnings to fall by 0.8%, whereas now they are forecast to grow by 1.6%.

The Fed may finally be able to raise rates
Treasury yields have surged as bond investors price in Trump stimulus policies. As prices have fallen, the yield on 10-year Treasury notes has jumped over 52 basis points since the election. At first glance, higher yields and interest rates would seem to be a headwind to the financial markets; however, we view it more positively for four reasons.

- Higher yields suggest more investor confidence in the economy. Given the muddling economy that we have experienced since the Great Recession, this is good news.

- Higher yield is good for those who desire yield, such as retirees. Investors starved for yield have been compelled to look to untraditional sources and take on more risk in their portfolios. Higher yields should allow these investors to bring portfolios back in line with their risk preferences.

- The Fed is likely to raise interest rates in December. During past Fed rate hike cycles, financial markets have generally suffered when rate increases were sharp and surprising. However, the upcoming rate hike in December has been expected by investors and represents the only increase of 2016. Historically speaking, equity market returns have been solid during slow, measured Fed rate hike cycles.

- With prospects for a December rate hike near certainty, the central bank will only tighten if the economy is improving at a pace demonstrably positive enough to absorb the increase. Of course, it also implies the Fed's dual mandate of maximizing employment and stabilizing inflation are being met. As of September, employee wages rose 2.8% on a year-over-year basis, the largest 12-month increase in seven and a half years. Higher wages are good for the economy.

Wall Street has welcomed the clarity and relief from contention that came with the results of the election. We anticipate that historical equity trends will prevail, with a typically strong finish to the year in the fourth quarter. We continue to recommend maintaining an allocation to fixed income to buffer equity volatility, but with shorter duration than the benchmark. Being overweight in corporate credit can benefit a portfolio as the additional yield can offset some of the principal losses from falling bond prices. Diversification within fixed income is also important, as is not having too much exposure to one risk factor. We also favor an allocation to alternatives to help smooth returns and take advantage of nontraditional sources of return. Most importantly, however, it is imperative to remain disciplined and remember that a portfolio should reflect an investor's investment objectives, goals, and risk tolerances.

Lastly, we would like to express our heartfelt gratitude and thanksgiving for you, our highly valued clients.

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Glossary

*The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.*

*The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.*

*The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.*

*The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.*

*The **S&P SmallCap 600** measures the small-cap segment of the U.S. equity market. Introduced in 1994, the index is designed to track the performance of 600 small-size companies in the U.S, reflecting this market segment's distinctive risk and return characteristics. The index measures a segment of the market that is typically known for less liquidity and potentially less financial stability than large-caps, the index was constructed to be an efficient benchmark composed of small-cap companies that meet investability and financial viability criteria.*

*The **S&P MidCap 400** provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, measures the performance of 400 mid-sized companies, representing more than 7% of available market cap.*

*The **S&P Composite 1500** combines three leading indices, the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600 to cover approximately 90% of the U.S. market capitalization. It is designed for investors seeking to replicate the performance of the U.S. equity market or benchmark against a representative universe of tradable stocks.*